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POLICY INNOVATION: CHILDREN'S DEVELOPMENT ACCOUNTS

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2009-2010 ASSETS & OPPORTUNITY SCORECARD

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OVERVIEW

More than one-third of the 4 million American children born each year – and more than half of minority children – are born into families with negligible savings to weather emergencies or invest in their futures. Through research and practice, it is clear that possessing even a few thousand dollars in assets gives people not only a modest measure of economic security, but also a sense of possibility and hope for the future. Assets are important to adults, but they are even more significant earlier in life, when aspirations, knowledge and saving behaviors are developing.

Children's Development Accounts (CDAs)[1] are one way to foster development of meaningful and enduring assets for all children. In their ideal form, CDAs are established for children at birth and grow over their lifetimes. Accounts are seeded with an initial deposit and built by contributions from family, friends and the children themselves. Accounts are augmented by savings matches and other incentives, and gain personal meaning as young accountholders and their families engage in age-appropriate financial education.

Beyond usefulness as savings products, broad-based adoption of CDAs would move the nation closer to the goal of universal, lifelong, progressive and inclusive asset-building public policy for all Americans. CDAs can increase the savings rate, ensure a greater level of investment in children, improve the economic and social prospects for each succeeding generation and increase the economic and social welfare of the nation as a whole.

During the past decade, an increasing number of federal and state legislative proposals from both sides of the aisle have been advanced to establish matched savings accounts at birth. Ultimately, a single national children's savings policy may be preferable to many different state policies; however, as is the case in other areas of policy development, experimentation and policy adoption by individual states may be the prelude to more universal federal policy.

WHAT STATES CAN DO[2]

States can create and fund CDAs that are universal, progressive, structured to promote lifelong savings and – beginning at age 18 – available for a range of individual uses. These include life-changing, asset-building investments in post-secondary education, entrepreneurship, homeownership and

1 For the purposes of this brief, the terms Children's Development Accounts, Children's Savings Accounts, Lifetime Savings Accounts and SEED (Saving for Education, Entrepreneurship and Downpayment) Accounts are used synonymously, provided they embrace the core elements of a strong policy.

2 One existing form of CDAs at the state level is a matched 529 college savings account. Several states match the savings of or provide tax credits to participants in their 529 college savings plans (see the "Incentives for College Savings" sections of the *2009-2010 Assets & Opportunity Scorecard*). However, these accounts are limited to saving for post-secondary education and are not yet universally available to all children in a state. This brief focuses on proposals to create a more flexible account structure that is not limited to saving for education, would be automatically opened for every child and would provide progressive savings incentives.

retirement security. These accounts can be structured so they are easy to use and appropriate for children, and accompanied by state-supported financial education for children and their parents.

Any effort to enact such accounts involves two primary tasks: creating a savings platform that meets the aforementioned criteria,[3] and securing funding for savings incentives, financial education and program management.[4]

ELEMENTS OF A STRONG POLICY

CFED asserts that an ideal children's savings policy should:

- **Cover everyone.** Accounts should be established at birth for every child in a state and should create a permanent infrastructure for saving for all. Such universal coverage requires automatic enrollment with no barriers to account opening, simplicity and an initial deposit for all.
- **Be lifelong.** Accounts should serve not only as an important connection to the mainstream economy, but also as an essential savings and investment account throughout a lifetime. Once created, CDAs should remain open by requiring the maintenance of some minimal balance, perhaps equal to the initial deposit.
- **Be progressive.** Along with larger initial deposits for lower-income families, voluntary additional contributions from any public or private source (e.g., family, friends, relatives, community organizations and parents' employers) should be incented by a public match that increases in value for families of lower income.
- **Build assets.** Beginning at age 18, accounts should be available for a range of individual uses, including asset-building investments in post-secondary education, entrepreneurship, homeownership and retirement.

WHAT STATES HAVE DONE

No universal children's savings policy has been enacted to date, but legislation has been introduced in two states (California and Mississippi) that would create CDAs for all newborns born in that state. Strides have also been made with experimental initiatives supported by nongovernmental funding, such as the Saving for Education, Entrepreneurship and Downpayment (SEED) Initiative and the Jim Casey Youth Opportunities Initiative, which together have provided accounts to more than 3,000 children and youth.[5]

3 There is no ideal, pre-existing account platform in the financial services marketplace specifically designed for CDAs and that meets all of these criteria. While some existing account vehicles have useful features, they all have significant limitations. Coverdells and 529 college savings accounts may only be used for education; Roth IRAs can be used for homeownership and education as well as for retirement, but cannot be used for small business start-up and are not appropriate for children because they require that all deposits come from the accountholder's own earned income.

4 In addition, states should ensure that families who receive public benefits (such as Temporary Assistance for Needy Families, Medicaid and Supplemental Nutrition Assistance Program) are not penalized for saving in CDAs. Most states have a complex array of rules and regulations that limit the amount of assets that a household can possess and still qualify for public assistance. These asset limits create a disincentive for saving among low-income families that receive public benefits. To address this issue, states can ensure that accounts are treated like Individual Development Accounts under existing asset limit exemptions; obtain asset limit waivers for accountholders; exclude specific types of assets (such as children's savings) from being counted under asset tests; and raise or eliminate overall asset limits. For more information, see the "Lifting Asset Limits" sections of the *2009-2010 Assets & Opportunity Scorecard.*

5 For more information about the SEED Initiative, go to www.cfed.org/go/seed. For information about the Jim Casey Youth Opportunities Initiative, go to www.jimcaseyyouth.org.

For more on the *2009-2010 Assets & Opportunity Scorecard* – CFED's signature research on wealth, poverty and the financial security of American families – visit http://scorecard.cfed.org.